

Message Text

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ACTION COME-00

INFO OCT-01 EA-11 ADP-00 EB-11 CIAE-00 INR-10 NSAE-00

RSC-01 RSR-01 /035 W

----- 096087

R 290950Z JUN 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8610

INFO AMEMBASSY TOKYO

UNCLAS SEOUL 4207

TOKYO FOR M.S. SOMECK, REGMARATT

FOR COMMERCE

E.O. 11652: N/A

TAGS: TERN, ETRD, KS

SUBJECT: MAJOR PROJECTS: KOREAN SHIPBUILDING INDUSTRY

REF: A. SEOUL'S A-070, 2/21/73 B. SEOUL 4206

SUMMARY: KOREAN GOVERNMENT IS ENCOURAGING STAGED CONSTRUCTION OF SEVERAL NEW SHIPYARDS NOW AND OVER NEXT FEW YEARS TO BUILD VERY AND ULTRA LARGE CRUDE CARRIERS. COMMERCE AND INDUSTRY MINISTRY (MCI) ESTIMATES ANNUAL SHIP CONSTRUCTION CAPACITY WILL REACH 3.7 MILLION GROSS TONS BY 1980. ANNUAL CAPACITY IS EXPECTED TO INCREASE TO 7.2 MILLION GROSS TONS BY 1985, BY WHICH TIME KOREA WILL HAVE SUPPLANTED JAPAN AS WORLD'S LEADING SHIP EXPORTER, IF PLANS ARE REALIZED. SEVERAL KOREAN FIRMS CONTENDING FOR DESIGNATION AS APPROVED SHIPYARD PROJECT ARE NOW SEEKING FOREIGN FINANCIAL AND TECHNOLOGICAL PARTICIPATION. ALTHOUGH COMPETITION WITH EUROPEANS (AND PERHAPS JAPANESE) WILL BE SEVERE, U.S. FIRMS WILLING TO ASSEMBLE ATTRACTIVE FINANCIAL PACKAGE OR ABLE OFFER EQUIPMENT AT COMPETITIVE PRICES STILL HAVE CHANCE TO SECURE AT LEAST SOME OF THE MORE THAN ONE QUARTER BILLION DOLLARS WORTH OF EQUIPMENT ORDERS INVOLVED. SHIPYARD GROWTH ALSO OFFERS OPPORTUNITIES FOR EQUITY INVESTMENT (ON MINORITY BASIS) AND FUTURE SALES SHIPBOARD QUIPMENT. THIS CABLE UNCLASSIFIED

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SUMMARIZED INFORMATION NOW AVAILABLE ON GOVERNMENT'S POLICY TO

DEVELOP THIS INDUSTRY. SPECIFIC COMPANY PROJECTS ARE DESCRIBED IN REF B. INTERESTED U.S. FIRMS OR BANKS SHOULD MAKE DIRECT CONTACT WITH COMPANIES NAMED THEREIN. END SUMMARY.

1. ESTABLISHMENT OF DOMESTIC SHIPBUILDING CAPABILITY HAS BEEN ONE OF KOREA' GROWTH TARGETS SINCE 1970. FIRST FRUIT OF PROMOTIONAL EFFORTS WAS HYUNDAI SHIPYARD (FINANCED AND EQUIPPED BY EUROPEAN INTERESTS) WHICH WAS BEGUN IN LATE 1971 AND NOW HAS ONE 260,000 DWT VLCC UNDER CONSTRUCTION PLUS FIRM CONTRACTS FOR FIVE MORE VLCC'S. AS REPORTED IN SEOUL'S A-070, THIRD FIVE YEAR ECONOMIC DEVELOPMENT PLAN PUBLISHED IN 1971 CALLED FOR MODEST EXPANSION OF SHIPBUILDING INDUSTRY, WITH INTENT OF PLACING KOREA AMONG TOP TEN SHIPBUILDING NATIONS BY 1976, PLAN'S TERMINAL YEAR.

2. BY LATE 1972, HOWEVER, SEVERAL FACTORS COMBINED TO CONVINCE KOREAN GOVERNMENT THAT MUCH LARGER EXPANSION IS FEASIBLE. MINISTRY OF COMMERCE AND INDUSTRY HAS NOW ANNOUNCED GUIDELINES FOR COMPLETION OF THREE VLCC AND LARGE RANGE YARDS, TWO GENERAL PURPOSE-MEDIUM RANGE YARDS, AND TWO FISHING BOAT YARDS BY 1976. BY 1980, FOUR ADDITIONAL YARDS - TWO VLCC, TWO MEDIUM RANGE - ARE TO BE BUILT, AND FIRST OF FIVE "SUPER LARGE SIZE" SHIPYARDS FOR CONSTRUCTION BETWEEN 1980 AND 1985 IS TO BE STARTED. ANNUAL PRODUCTION CAPACITY FOR EACH TYPE YARD IS TO BE:

DEEP SEA FISHING BOATS 15,000 GROSS TONS

MEDIUM SIZE SHIPS 250,000 GROSS TONS

LARGE SIZE SHIPS 1,000,000 GROSS TONS

SUPER LARGE SIZE SHIPS 1,500,000 GROSS TONS

3. GOVERNMENT ENCOURAGEMENT FOR THIS INDUSTRY IS BASED ON FOLLOWING:

A. MARKETING INFLUENCES - WORLD SHIP DEMAND AT PRESENT TIME EXCEEDS BUILDING CAPACITY AVAILABLE AT PRICES KOREA CAN CHARGE: ORDER BACKLOGS NOW EXISTING IN OTHER COUNTRIES GIVE KOREA OPPORTUNITY TO BUILD YARDS AND STILL ATTRACT NEW ORDERS BY OFFERING
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REALTIVELY EARLY DELIVERY; KOREAN LABOR COSTS ARE SIGNIFICANTLY LOWER THAN IN MOST COMPETING COUNTRIES, AND DIFFERENTIAL IS EXPECTED TO CONTINUE OVER NEXT SEVERAL YEARS; SKILLS TRAINING IS NECESSARY BUT EFFECTIVE FOR HARDWORKING KOREAN LABORERS; AND PHYSICAL CONDITIONS - CLIMATE, AVAILABILITY OF LOW PRICED SUITABLE SITES, ETC., - FAVOR KOREA.

B. NATION-BUILDING INFLUENCES - IN ADDTION TO ECONOMIC

EFFECTS SUCH AS FOREIGN EXCHANGE EARNINGS, NEW EMPLOYMENT GENERATION, INDUSTRIAL LINKAGES AND UTILIZATION OF STEEL OUTPUT, SHIPBUILDING IS ALSO REGARDED AS IMPROVING COUNTRY'S DEFENSE INDUSTRY POTENTIAL AND ENHANCING IMAGE AS SERIOUS INDUSTRIAL POWER IN EAST ASIA.

4. BECAUSE FREE WHEELING INFLOW OF FOREIGN FUNDS IN LATE 1960'S LED TO LATER CONCERN OVER DEBT SERVICING (NOW UNDER CONTROL) AND SOMETIMES WAS ASSOCIATED WITH QUESTIONABLE PROJECTS, GOVERNMENT HAS SET GUIDELINES INTENDED TO MAKE SURE THAT EACH SHIPYARD PROJECT IS ECONOMICALLY VIABLE AND THAT KOREAN EQUITY IS SUFFICIENT TO ENSURE RESPONSIBLE MANAGEMENT AND CONTINUING PARTICIPATION BY KOREAN ENTREPRENEURS. KOREAN CORPORATE FINANCE, LIKE THAT OF JAPAN, IS HIGH LEVERAGE OPERATION; GUIDELINES ATTEMPT TO REDUCE RELIANCE ON DEBT IN ORDER TO IMPROVE SOUNDNESS OF PROJECT PROPOSALS. GUIDELINES CALL FOR MINIMUM EQUITY EQUAL TO AT LEAST THIRTY PERCENT OF PROJECT COST, WHILE REMAINING SEVENTY PERCENT MAY BE BORROWED. IN CASE OF JOINT VENTURE, KOREAN PARTNER IN PRINCIPLE SHOULD CONTRIBUTE SEVENTY PERCENT OF EQUITY PORTION BUT EXCEPTIONS MAY BE NEGOTIATED. WHEN FOREIGN LOAN INVOLVES DOWN PAYMENT SUCH AS IN EXIM BANK LOANS, DOWN PAYMENT IS TO BE RAISED DOMESTICALLY AND NOT BORROWED ABROAD, WHICH HAS BEEN ACTUAL PRACTICE UNTIL NOW. IN GENERAL, PROPOSALS PRESENTING BEST FINANCIAL AND TECHNOLOGICAL MIX WILL HAVE EDGE IN OBTAINING APPROVAL. POSSIBILITY OF EXCEPTIONS TO GUIDELINES ON CASE BY CASE BASIS IF CIRCUMSTANCES WARRANT, HOWEVER, IS NOT RULED OUT.

5. GOVERNMENT HAS DESIGNATED SEVEN BAYSHORE AREAS ON KOJE ISLAND AND NEAR CHUNGMU CITY AS POTENTIAL SHIPYARD SITES. THESE AREAS WERE CHOSEN BECAUSE AVERAGE WATER DEPTH IN CALM BAYS IS ABOUT 8 FATHOMS THUS MINIMIZING DREDGING AND BREAKWATER EXPENSES. DESIGNATION FREEZED REAL ESTATE PRICES AND EASES LAND ACQUISITION BY UNCLASSIFIED

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SHIPBUILDERS. GOVERNMENT PLANS TO CONSTRUCT ACCESS HIGHWAY TO KOJE-DO, AND TO LINK SHIPYARD SITES; TO INSTALL POWER TRANSMISSION LINES FROM YOSU GENERATING STATION AND ESTABLISH DISTRIBUTION SUB-STATION ON KOJE-DO, CONSTRUCT AIRPORT AND WATER SUPPLY SYSTEM, ESTABLISH RESEARCH INSTITUTE AND ASSIST IN TRAINING MANPOWER. OTHER OFFICIAL ASSISTANCE TO SHIPBUILDING FIRMS IS CITED IN REF A.

6. COMMERCE IS REQUESTED TO MAKE THIS CABLE AVAILABLE AS INFORMATIONAL SUPPLEMENT TO REFTEL B. WHICH IDENTIFIES INDIVIDUAL SHIPYARD PROJECTS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TERN
Control Number: n/a
Copy: SINGLE
Draft Date: 29 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SEOUL04207
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973061/aaaaaamj.tel
Line Count: 167
Locator: TEXT ON-LINE
Office: ACTION COME
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A.SEOUL'S A-070, 2/21/73 B. SEOUL 4206
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 15 OCT 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Oct-2001 by phillir0>; APPROVED <05 MAR 2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MAJOR PROJECTS: KOREAN SHIPBUILDING INDUSTRY
TAGS: ETRD, KS
To: SECSTATE WASHDC TOKYO
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005